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Egyptian, Eatsco Plead Guilty to Filing False Shipping Bills With Defense Agency

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON—An Egyptian businessman pleaded guilty to filing \$8 million in false shipping bills with the Defense Department for transporting U.S. arms to Egypt.

The businessman, Hussein K. Salem, was fined \$20,000 and also paid \$3,020,000 to settle U.S. civil claims against him and his company, Egyptian American Transport & Services Corp., or Eatsco. The company also pleaded guilty to the criminal information and paid a \$20,000 fine.

Eatsco serves as shipping agent for the Egyptian government on arms bought by Egypt with U.S. loans. Egypt won a promise of billions of dollars in U.S. military aid to buy jets, missiles and other arms in return for signing its historic peace treaty with Israel in early 1979. By November 1979, both Egypt and the Pentagon had approved paying Eatsco to be the agent for the arms shipment.

Justice Department officials said a federal grand jury investigation is continuing along with efforts to recover the remaining \$5 million in overcharges. Department sources said criminal charges are expected to be filed against others by November.

The guilty pleas were entered in U.S. District Court in Alexandria, Va. Mr. Salem and Eatsco were accused of conspiring with others to submit false invoices on 34 shipments from November 1979 through December 1981. Justice Department officials said that they negotiated the pleas with a lawyer for the defendants and that Mr. Salem is co-operating with investigators.

Eatsco was set up by Mr. Salem and Thomas G. Clines, a former official at the Central Intelligence Agency. Mr. Clines, who doesn't any longer have an interest in Eatsco, is also a target of the investigation, according to Justice Department sources.

In court Friday, Theodore S. Greenberg, an assistant U.S. attorney, said Mr. Clines participated in the alleged billing scheme. He said other participants included Rolf Graage, president of R.G. Hobelmann & Co., a Baltimore freight-forwarding company, and the company itself.

Eatsco's lucrative arms-shipping trade was described in a Wall Street Journal story last year. The story reported that Eatsco had received a series of payments, totaling \$71.4 million, from the U.S. to handle the arms shipments for Egypt, and that a grand jury was looking into whether the company inflated its billings. The money came from U.S. loans to Egypt.

Prosecutors have also been scrutinizing the conduct of two top Pentagon officials—Air Force Maj. Gen. Richard V. Secord and arms sales chief Erich F. von Marbod, both now retired—who helped oversee the Egyptian arms sales.

Government investigators are interested in the relationships among the two former defense officials, Eatsco and former CIA agent Edwin P. Wilson. In an unrelated matter, Mr. Wilson was recently convicted of illegally exporting arms and explosives to the Libyan government of dictator Muammar Qadhafi.

Mr. Wilson arranged for a \$500,000 loan for Mr. Clines several months before Eatsco was formed, and met with Gen. Secord and Mr. von Marbod during the same period. He also had real estate dealings with Gen. Secord and lent the general a private airplane on a number of occasions in 1978 and 1979.

Attorneys for the former Pentagon officials, R.G. Hobelmann and Mr. Clines have denied any wrongdoing by their clients.

In explaining the alleged conspiracy, Mr. Greenberg said Eatsco hired R.G. Hobelmann to act as freight forwarder on the Egyptian shipments. A freight forwarder books cargo space and generally makes shipping arrangements.

He said that an "illegal agreement" was fashioned whereby a Hobelmann subsidiary, Air Freight International Inc., was used "to inflate the costs" for shipments of defense items to Egypt.

Pentagon approval is required before U.S. funds can be used to cover shipping. A Pentagon official said the Defense Department would discuss the situation with the Egyptian government but declined to speculate on whether the U.S. would insist that Eatsco's contract with Egypt be canceled.